

Ministry for Foreign Affairs



## **SPECIAL REVIEW OF ICELAND**

This special review of the development co-operation policies and programme of Iceland was conducted at the request of Iceland's Ministry of Foreign Affairs and undertaken with the agreement of the OECD's Development Assistance Committee (DAC). Two DAC members, Australia and Denmark, served as examiners for the special review which took place from November 2012 to January 2013.



## ACRONYMS

<b>CIDA</b>	Canadian International Development Agency
<b>CRS</b>	Creditor Reporting System
<b>DAC</b>	Development Assistance Committee
<b>DCD</b>	Development Co-operation Directorate, of the OECD
<b>GDP</b>	Gross Domestic Product
<b>GENE</b>	Global Education Network Europe
<b>GHD</b>	Good Humanitarian Donorship
<b>GNI</b>	Gross National Income
<b>ICEIDA</b>	Icelandic International Development Agency
<b>ICRU</b>	Iceland Crisis Response Unit
<b>IFIs</b>	International Financial Institutions
<b>IMF</b>	International Monetary Fund
<b>INAO</b>	Iceland National Audit Office
<b>LDC</b>	Least Developed Countries
<b>MDGs</b>	Millennium Development Goals
<b>MFA</b>	Ministry for Foreign Affairs, Iceland
<b>NGOs</b>	Non-governmental Organisations
<b>ODA</b>	Official Development Assistance
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>OOF</b>	Other Official Flows
<b>PCD</b>	Policy Coherence for Development
<b>UN</b>	United Nations
<b>UNICEF</b>	United Nations Children's Fund
<b>UNU</b>	United Nations University

## SPECIAL REVIEW OF ICELAND

<b>UN Women</b>	United Nations Entity for Gender Equality and the Empowerment of Women
<b>USD</b>	US dollar
<b>WB</b>	World Bank

### Signs used:

ISK	Icelandic krona
USD	United States dollars
( )	Secretariat estimate in whole or part
-	Nil
0.0	Negligible
..	Not available
...	Not available separately but included in total
n.a.	Not applicable

### Notes on data used:

The data used in this report are based on the OECD's Creditor Reporting System (CRS), unless indicated otherwise. Slight discrepancies in totals are due to rounding. For comparisons over time, the special review used 2010 constant US dollars. For data concerning only one year, the special review used current US dollars for the corresponding year.

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### Annual average exchange rate (ISK per USD)

<b>2010</b>	<b>2011</b>
122.242	116.058

### Iceland's Aid at a Glance

#### Iceland

Gross Bilateral ODA, 2010-11 average, unless otherwise shown

Net ODA	2010	2011	Change 2010/11
Current (USD m)	29	26	-11.0%
Constant (2010 USD m)	29	23	-18.6%
In Kronur (million)	3 514	2 968	-15.5%
ODA/GNI	0.29%	0.21%	
Bilateral share	72%	78%	

Top Ten Recipients of Gross ODA (USD million)	
1 Uganda	3.2
2 Malawi	2.5
3 Mozambique	2.1
4 Afghanistan	1.3
5 Namibia	1.3
6 West Bank & Gaza Strip	0.8
7 Nicaragua	0.7
8 Haiti	0.4
9 Guinea-Bissau	0.3
10 Bosnia-Herzegovina	0.2
Memo: Share of gross bilateral ODA	
Top 5 recipients	51%
Top 10 recipients	63%
Top 20 recipients	68%

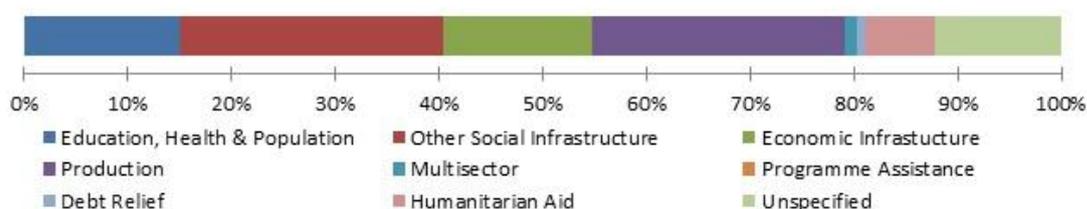
By Income Group (USD m) Clockwise from top



By Region (USD m)



By Sector (2011)





## TABLE OF CONTENTS

<b>EXECUTIVE SUMMARY .....</b>	<b>9</b>
Strategic orientations .....	9
ODA volume, channels and allocations .....	10
Organisation and management .....	11
<b>CHAPTER 1: THE STRATEGIC ORIENTATION OF ICELAND'S DEVELOPMENT CO-OPERATION.....</b>	<b>13</b>
Introduction.....	13
Iceland's legal and strategic framework .....	13
Iceland has strengthened the legislative framework for its development assistance.....	14
Iceland has put in place a strategy for its international development co-operation.....	14
Iceland's thematic and geographical focus should be strengthened.....	14
Mainstreaming cross-cutting issues.....	15
Partnering with civil society.....	15
A strategic approach to multilateral aid .....	15
Humanitarian assistance .....	16
Building on progress to shape the direction in which Iceland wants to move as a donor.....	16
Engaging with the public and key constituencies on development issues .....	17
Communication and engagement .....	17
Global education .....	17
Iceland should improve consultation on its development co-operation .....	17
Strengthening accountability.....	18
Recommendations.....	18
<b>CHAPTER 2: ODA VOLUME, CHANNELS AND ALLOCATIONS .....</b>	<b>21</b>
Iceland is committed to achieving its 0.7% ODA/GNI target by 2019 .....	21
Iceland will need to make choices about allocating additional ODA post-2014.....	22
Bilateral and multilateral channels and allocations.....	22
Iceland's bilateral ODA should be concentrated on fewer countries .....	23
More than half of Iceland's bilateral ODA goes to least developed countries (LDCs).....	24
The need for further thematic focus .....	24
Iceland's bilateral aid modalities and aid effectiveness .....	24
Multilateral ODA .....	28
Statistics and reporting.....	28
Recommendations.....	28
<b>CHAPTER 3: ORGANISATION AND MANAGEMENT OF ICELAND'S DEVELOPMENT CO-OPERATION .....</b>	<b>31</b>
Iceland's institutional framework for its aid.....	31
Strengthening the management of Iceland's aid .....	32
Improving stakeholder engagement structures and the quality of dialogue .....	33
Decentralised bilateral co-operation in Iceland's partner countries .....	34
Human resources.....	34
Ensuring Iceland has sufficient, appropriate development co-operation staff for scaling up .....	35
Performance monitoring and evaluation .....	36
The need to strengthen Iceland's evaluation culture .....	36
Recommendations.....	37

## SPECIAL REVIEW OF ICELAND

### **BIBLIOGRAPHY.....39**

Government of Iceland .....	39
Other sources .....	40

### **Tables**

Table 1. Iceland's Parliamentary Approved Timetable for Increasing ODA 2012 - 2019 .....	22
Table 2. Top recipients of Icelandic gross bilateral ODA: four year averages 2001-2011 - USD million (amounts in USD constant 2010 prices) .....	24

### **Figures**

Figure 1. Iceland's Net ODA Disbursements, 1999-2011 and ODA/GNI percentages.....	21
Figure 2. A Breakdown of Iceland's Bilateral and Multilateral Net ODA Disbursements 2011 .....	23
Figure 3. Total amount of gross bilateral ODA, analysed with the OECD/DAC's Gender Equality Policy Marker in 2011 .....	27
Figure 4. Iceland's development co-operation system.....	32
Figure 5. Division of labour between the Ministry for Foreign Affairs and ICEIDA .....	33
Figure 6. Decentralisation: Percentage of Staff Working on Iceland's Development Co-operation in Headquarters and in the Field in 2012 .....	35

### **Boxes**

Box 1. Taking the initiative on aid effectiveness.....	26
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## EXECUTIVE SUMMARY

### Introduction

At the request of Iceland's Ministry for Foreign Affairs (MFA), the OECD Development Co-operation Directorate (DCD) and the delegates of Australia and Denmark of the Development Assistance Committee (DAC) conducted a special review of Iceland's international development co-operation from November 2012 to January 2013. The review's main objective was to contribute good practice and lessons learned to the Icelandic authorities' internal dialogue on the reform of their development co-operation in the context of Iceland's aspiration to become a member of the DAC. The DAC welcomes the special review as an opportunity to learn from the unique perspectives and expertise of providers of development co-operation that are not members of the Committee.

### Achievements and areas for strengthening

The special review concludes that Iceland has established a legal foundation for its development co-operation, a comprehensive strategy and a clear commitment to increase its aid budget despite a challenging economic context. Iceland is a small donor, but it compares favourably to several strong DAC performers in many areas. Iceland is well placed to meet the criteria for membership, and this should give it the confidence to move ahead with its application. Future DAC membership would be of mutual benefit to Iceland and present DAC members. Membership of the Committee could further reinforce Iceland's progress in its development work and the DAC would benefit from Iceland's unique perspective and its experience of more than 30 years of managing aid.

Iceland's development co-operation faces certain challenges, for which the Review considers solutions to be within reach. These challenges include the need for:

- i) further refining its aid strategy in light of a clear vision of the type of donor Iceland wants to be in the future;
- ii) strengthening the leadership and management of Iceland's development co-operation, particularly the key roles played by the Ministry for Foreign Affairs and the Icelandic International Development Agency (ICEIDA);
- iii) improving the performance monitoring and evaluation of Iceland's Official Development Assistance (ODA); and
- iv) further improving its engagement with key stakeholders and communication with the public at large

### *Strategic orientations*

Iceland has strategies and policies for its development co-operation and these are generally in line with DAC good practice.

### *Key Achievements*

Iceland has a legal and policy framework which brings together all of Iceland's development co-operation - bilateral, multilateral and humanitarian and is backed up by a strategy that has been adopted by the parliament.

## SPECIAL REVIEW OF ICELAND

In keeping with good practice, Iceland's development co-operation is anchored within its foreign policy and focuses explicitly on the Millennium Development Goals (MDGs) and poor people in poor countries. Iceland's aid is also concentrated on a limited number of partner countries and multilateral organisations and recognises Iceland's comparative advantage. Iceland also uses its position well as a member of key multilateral and regional organisations to achieve greater influence relative to its size.

### *Areas in need of strengthening*

There is a need for further clarity over Iceland's comparative advantage and the direction in which it wants to move as a donor, in order to ensure Iceland is using its small-volume development co-operation programme for maximum development results. Iceland's intended revision of its aid strategy offers a good opportunity to elaborate on this. As part of its broader vision, Iceland also needs to:

- strengthen the synergies between Iceland's multilateral and bilateral engagements;
- elaborate on how it is going to allocate and deliver the planned additional aid resources post 2014 – multilateral, bilateral and humanitarian; and
- elaborate on how it is going to improve its performance monitoring and evaluation and reporting on development results.

The Ministry for Foreign Affairs and ICEIDA also need to strengthen their communication efforts in light of the planned scale-up of ODA. This could be achieved by working with NGOs more and by providing the Icelandic public and parliament with targeted information on development results to enable an informed discussion.

In addition, the way the Ministry for Foreign Affairs currently consults with stakeholders on its policies and strategies is ad hoc. There is scope to improve this by ensuring there is a systematic process for consultation over all new policies.

### ***ODA volume, channels and allocations***

In 2011, Iceland's ODA stood at USD 26 million, equivalent to 0.21% of its national income – this is a commendable level of effort given its challenging economic context.

### *Achievements*

Iceland's parliament has an ambitious commitment to reach an ODA/Gross National Income (GNI) ratio of 0.7% by 2019. This is accompanied by a clear timetable.

Iceland's plan to concentrate its aid on fewer countries and to maintain its focus on a limited group of multilateral organisations in the future is sensible for such a small donor (its aid volume in 2011 equated to less than 8% of the smallest DAC member). As is Iceland's intention to further reduce the number of its thematic priorities in the context of its size and its comparative advantage.

### *Areas in need of strengthening*

In line with Iceland's strategy, the Ministry for Foreign Affairs and ICEIDA have agreed on a division of Iceland's ODA at a ratio of 60 (Ministry): 40 (ICEIDA) and have developed plans for scaling up Iceland's ODA in 2013 and 2014 on the basis of this. However, Iceland should start thinking now about whether this is an appropriate division for the longer term and how to allocate additional funding between

multilateral and bilateral channels beyond 2014, including in the context of possible EU membership. As part of this, Iceland should further concentrate its growing resources on fewer countries and themes.

In 2012 Iceland reported its aid statistics to the DAC using DAC's Creditor Reporting System (CRS) which is a good achievement. Iceland should establish a systematic process for collecting these data in the future.

### ***Organisation and management***

Iceland has an institutional framework with sufficient operational capacity for delivering its development co-operation.

### ***Achievements***

Iceland's 2008 Act and subsequent regulations have consolidated its institutional frameworks by vesting the supreme authority for development co-operation in the Minister of Foreign Affairs and by establishing structures for engagement and consultation, such as the Development Co-operation Committee and the Council on International Development Co-operation. These frameworks enable appropriate capacity to deliver Iceland's development co-operation programme.

There is good co-operation between the Ministry for Foreign Affairs and ICEIDA and the staff of these institutions are dedicated and professional.

Devolution of authority from ICEIDA headquarters to its field offices has been effective in providing Iceland with the resources and flexibility to respond to evolving partner country needs.

### ***Areas in need of strengthening***

In the short-term, the Ministry for Foreign Affairs and ICEIDA should build on the progress they have made in working closer together and integrating their resources, thereby optimizing their capacities, particularly in key areas such as policy and strategic planning and country programme management.

In the medium term, a decision should be made about the most appropriate aid management structure for Iceland. This decision must be taken within the context of Iceland's new development strategy and in light of the need to improve further the accountability, effectiveness and efficiency of its development co-operation.

In the short to medium term the Ministry for Foreign Affairs and ICEIDA should review and up-date the skills available to them in the light of the changing development context and Iceland's priorities.

The new structures introduced with and since the 2008 Act are yet to fulfil their full potential. The role of the Steering Group should be reviewed and strengthened in respect to guiding policy formulation and providing leadership of Iceland's development co-operation. The Council's consultative function should also be strengthened to enable greater space for debate and dialogue with the Ministry.

Iceland should strengthen its performance monitoring and evaluation culture to build an evidence base to inform future policy choices and allocation decisions, in particular, regarding the main and growing components of its programme, such as UNU, the bilateral country programmes and support channelled to and through civil society organisations.



## CHAPTER 1: THE STRATEGIC ORIENTATION OF ICELAND'S DEVELOPMENT CO-OPERATION

### Introduction

Non-DAC OECD Members have in recent years significantly increased their interest in the work of the OECD Development Assistance Committee (DAC) as well as in potential future membership, particularly in view of ambitious commitments to scale up their development assistance. Iceland has participated in most formal DAC meetings since 2000, including High-Level and Senior-Level Meetings and it has reported its Official Development Assistance (ODA) to the DAC since 1999. In addition, Iceland has taken part in the work of the DAC's former Working Party on Aid Effectiveness and participated as an observer in the work of GENDERNET and the Working Party on Statistics. In this context, Iceland approached the OECD Development Co-operation Directorate (DCD)/DAC Secretariat in August 2012 with a request for a review of its aid management system (special review) to support expected reforms of its development co-operation.

The special review took place over the period of November 2012 to January 2013 and involved a visit to Reykjavik in November 2012 by the special review team as well as analysis of documentation and extensive discussions with key stakeholders. The special review team comprised the DAC delegates of Australia and Denmark together with experts from the OECD DCD. The special review is modelled on the DAC peer review process. It focuses on issues of aid management and refers to DAC knowledge and norms of good practice. It is designed to provide critical, helpful and respectful professional insight in support of Iceland's operation and management of its aid system. It offers the DAC and its Secretariat a better understanding of the issues of concern of the non-DAC donor community and is an important contribution to the development dialogue between the DAC and non-DAC donors.

### Iceland's legal and strategic framework

Iceland is a small donor, its total aid volume for 2011 of USD 26 million equates to less than 8% of the ODA of the smallest DAC member (Greece) in that year, but it has 30 years' worth of experience of managing aid and it was itself an aid recipient as late as 1976. Iceland's development co-operation effort goes back to 1971. It was in this year that the internationally agreed target of devoting 0.7% of Gross National Income (GNI) to Official Development Assistance (ODA) was promoted by the country's parliament, known as the *Althingi*, through its Act No. 20/1971 on *Iceland's Assistance to the Developing Countries* – this legislation stated that Iceland should work towards reaching at least 1% ODA/GNI. In 1981, the Icelandic International Development Agency (ICEIDA) was established as an autonomous agency under the responsibility of the Ministry for Foreign Affairs with the mandate to promote co-operation between Iceland and developing countries. The founding act of ICEIDA, Act No. 43/1981, reiterated the objective of achieving 0.7% ODA/GNI.

It is commendable that Iceland pursues the high standards of aid volume and quality set by its Nordic peers. In keeping with these peers, Iceland has steadily increased its ODA since 2000, reaching a peak of USD 48 million (0.37% ODA/GNI) in 2008. Successive governments since 2003 pushed development forward on Iceland's domestic agenda and as a key pillar of the country's foreign policy. In this context, DAC membership has been perceived by Iceland as key to help the government make progress in consolidating its development policy and programme. However, following the deep recession that occurred in 2008, Iceland reduced its aid commitments in 2009 and 2010. But, with the economy recovering, there is currently a momentum in favour of increasing development co-operation in Iceland.

***Iceland has strengthened the legislative framework for its development assistance***

In 2008, with aid levels at their peak, the Althingi passed a comprehensive legal framework for Iceland's development co-operation, Act No. 121/2008. The act is regarded by parliamentarians and civil society representatives as an important turning point for Iceland's aid as for the first time it laid down the rules and set a firm basis for the whole of Iceland's development co-operation including multilateral ODA, humanitarian assistance and peace-building efforts; the earlier act covered only its bilateral aid.

The act is in line with DAC good practice and re-confirms that the main objective of Iceland's development co-operation is to eradicate poverty and hunger in developing countries. The Act identifies economic and social development, human rights, education, health, gender equality, sustainable development and sustainable use of resources as priority themes. The Act also strengthens the organisational framework for Iceland's development co-operation, vesting the supreme authority for it in the Minister for Foreign Affairs, supported by the Development Co-operation Committee and a 17 member Council on International Development Co-operation (appointed by the Minister) and ICEIDA. The act also requires the Minister to submit every two years to the Althingi a proposal for the Icelandic government's strategy for international development co-operation for a four year period.

***Iceland has put in place a strategy for its international development co-operation***

In accordance with its legal framework, Iceland's *Strategy for International Development Co-Operation 2011-2014* was approved and adopted by the Althingi in June 2011. This strategy has been developed in the context of Iceland's foreign policy and is seen by the government and Althingi as an integral part of this. Iceland's foreign policy is currently focused on relations with Europe, in particular its application to become an EU member, trade, climate change issues and contributing to global development. If Iceland is successful in its EU application its membership will have significant implications for its development co-operation strategy and allocations (see 1.2.6).

Iceland's strategy is generally in line with DAC good practice and spells out its commitment to poverty reduction, the MDGs, aid effectiveness and other international promises. The strategy outlines the government's target for ODA with a timeline for gradually increasing this from its current (2011) level of 0.21% ODA/GNI to 0.28% of GNI by 2014. The strategy also emphasises international agreements on results and development effectiveness, such as the Paris Declaration and the Accra Agenda for Action and envisages Iceland's full membership of the DAC by 2014. Iceland's thematic and geographical priorities are set out in the strategy and these are discussed in the section below.

***Iceland's thematic and geographical focus should be strengthened***

The special review team commends Iceland for narrowing its thematic and geographical focus. A key lesson from DAC peer reviews is that donors should focus their assistance on a few countries, a few sectors and, in particular, a few activities. This is particularly important for small donors with limited resources. Iceland has recently reduced the number of its partner countries from five to three and is planning to reduce the range of its activities. Iceland also intends to further concentrate its geographical and thematic focus as it increases its ODA over the next two years, which is sensible given the likely small size of even an expanded Icelandic programme.

The key thematic foci for Iceland's aid for the period 2011-2014 are: natural resources, human capital and peace-building. These themes are quite broad and Iceland focuses within them, to a certain extent, on geothermal energy, sustainable fisheries and gender equality – these are considered to be areas where it has a comparative advantage relative to other donors, with special knowledge and competency to share in these three fields. However, in addition to these core areas, Iceland is also supporting projects in education,

health and good governance in its three bilateral partner countries (Malawi, Mozambique and Uganda) and peace-building and a range of development activities in Afghanistan and the West Bank and Gaza Strip. In order to maximise its contribution as a small donor, Iceland should go further in narrowing the focus of its assistance, both geographically and thematically and this is discussed in section 1.3.

The government reports that partner countries are selected on the basis of developmental needs, logistical and practical criteria and the track record of Icelandic aid in these contexts. Iceland's support for its three bilateral partner countries, managed by ICEIDA, involves more intensive co-operation and a district-level focus, while its support for Afghanistan and the West Bank and Gaza Strip is provided through multilateral organisations. Iceland's country strategy papers govern its support in each case<sup>1</sup>.

### *Mainstreaming cross-cutting issues*

Iceland has a deliberate and careful way of looking at its priority cross-cutting issues of gender equality and the environment. Nonetheless, like all donors Iceland has not yet fully integrated these two issues in its programmes, operations and organisational culture. The Ministry for Foreign Affairs and ICEIDA should learn from other agencies' experiences and good practice in mainstreaming gender equality over the past decade. These have been summarised in a recent report which highlights, among other things, the need for systems of accountability and incentives together with a consistent approach to recording results and disseminating lessons (African Development Bank, 2011). Iceland's approach to mainstreaming environmental issues might also be reviewed and up-dated in the light of the experience of DAC members who are doing this well, such as Denmark which has successfully mainstreamed environmental issues in its programmes through systematic screening, monitoring and reporting, as well as training for Danida staff and development partners (OECD, 2011c).

### *Partnering with civil society*

As a proportion of its total ODA Iceland makes relatively little use of civil society organisations (CSOs) in delivering its programmes and does not yet have a specific strategy for working with them. Most of Iceland's funding through CSOs is for humanitarian assistance, discussed at 1.2.7. However, Iceland's strategy indicates that its partnerships with CSOs will be strengthened in the future and a separate, much larger, item in its State Budget for 2012 was dedicated to this (Chapter 2). In developing its partnership with CSOs, Iceland should take account of the lessons of DAC members which have been brought together in a recent publication (OECD, 2012a). In particular, Iceland should clarify its rationale for working with CSOs, the principles that will govern the partnership and the criteria for selecting partners.

### *A strategic approach to multilateral aid*

Iceland is committed to multilateralism and strongly supports multilateral approaches to solving key global issues. Iceland uses its position well as a member of key multilateral and regional organisations to achieve greater influence relative to its size. In particular, Iceland's membership of the Nordic-Baltic Constituency at the World Bank has enabled it to influence the promotion of particular issues, such as gender, to a larger extent than other small members of this institution. Moreover, the period 2003 to 2006 when Iceland held the Executive Director position of the Nordic-Baltic Constituency in the World Bank proved a seminal moment in the history of Iceland's development co-operation. In fulfilling its responsibility in this regard the government of Iceland raised development to a high level within the country's foreign policy agenda and eventually established the Directorate of International Development Co-operation in the Ministry for Foreign Affairs to facilitate its role as Executive Director.

The bulk of Iceland's multilateral aid (its core contributions to the multilateral system) is concentrated on three international organisations: the World Bank, UNICEF and UN Women. Iceland uses its

## SPECIAL REVIEW OF ICELAND

participation in the governance arrangements of these multilateral organisations in a strategic way, focusing where it can on geothermal energy, sustainable fisheries and gender. As noted above, this creates synergy with Iceland's bilateral programmes and reinforces its intellectual leadership of these thematic priorities. Iceland intends to maintain the focus of its multilateral ODA on these three multilateral organisations and this is appropriate.

The special review team notes that Iceland's potential membership of the EU will have major implications for its development co-operation. EU membership would impact on Iceland's ODA allocations and its approach to multilateral aid. In the light of the experience of other new EU members, Iceland's assessed contributions to the EU's development efforts would, on accession, immediately become the single largest component of Icelandic aid. In such a scenario, there would continue to be scope for Iceland's bilateral programme, and support to and through other multilateral organisations, but only if its aid levels increased as currently projected.

### *Humanitarian assistance*

Humanitarian aid is not a focus of the special review. However, it is important to note that it is specified in Iceland's Act No. 121/2008 and is included in its strategy. This is broadly in accordance with the Principles and Good Practice of Good Humanitarian Donorship (GHD) which Iceland has recently (November 2012) indicated its intention to endorse. Iceland spent USD 1 325 000 on humanitarian assistance in 2011; this represents a little over 5% of its total ODA. Iceland's requirement for humanitarian NGOs to provide 10% of total project costs as co-finance is not in line with the practice of DAC members. No DAC members ask for co-financing for emergency responses. As it develops its humanitarian assistance Iceland should take account of the lessons of DAC members which have been brought together in a recent publication (OECD, 2012 b).

### **Building on progress to shape the direction in which Iceland wants to move as a donor**

Like all small donors, Iceland has to make careful and tough choices about where and how it responds to a vast and changing development landscape. It cannot afford to replicate larger donors that often have numerous partner countries and a range of thematic priorities. In accordance with the requirements of its development co-operation act of 2008, Iceland will be revising its aid strategy in 2015 and this gives it an opportunity to incorporate lessons and to elaborate further on the direction in which it wants to move as a donor. Given its size, one approach for Iceland would be to intensify its focus on a small set of thematic priorities where it can add value. Areas such as geothermal energy; sustainable fisheries; gender equality; and peace-building would be obvious candidates. Further focusing on some of these comparative strengths could, however, signal a move from Iceland's current country focused development co-operation to a more strategic specialisation in these thematic areas. This would be similar to the approach taken by Norway, with that DAC member's shift from country focused aid to a strategic specialisation in environment and climate change, clean energy and global health.

Alternatively, Iceland may also wish to look at the experience of other small donors, such as Luxembourg, the second smallest DAC member. This DAC member has a geographic and sectoral concentration that allows it to make up for the modest size of its programme (USD 413 million in 2011) and to have a real impact – indeed, to play a leadership role – in two or three of its partner countries and in certain sectors of concentration. However, it should be noted that Iceland's aid programme in 2011 equated to only 6% of Luxembourg's. If Iceland were to adopt such an approach it would be necessary to reduce its geographic focus to only one or two countries and one or two sectors within these.

Whatever the direction may be of Iceland's development co-operation, its future strategy should be built upon a transparent evidence base and this requires it to make greater use of the results of performance

monitoring and evaluations in its policy formulation. In particular, it will be important to establish the results of its main programmes and to make choices about future strategies based on these. In addition, the new strategy should provide a stronger rationale and basis for allocating aid to multilateral and bilateral channels, among recipient countries and sectors and deciding upon the instruments to be used. In addition, whatever approach Iceland takes would still need to be combined with its commitment to the MDGs and the Paris Declaration. Iceland's strategic choices will impact on its ODA allocations and its institutional arrangements for managing its aid and these are discussed in Chapters 2 and 3 respectively.

### **Engaging with the public and key constituencies on development issues**

DAC peer reviews have shown that public awareness of, and support for, development co-operation is the best guarantee of political and legislative support for strong and dynamic national development programmes. Support for and understanding of development co-operation appears to be high in Iceland, as reflected in the broad consensus on its aid in the Althingi. However, Iceland has not conducted any national polls on development co-operation and it would be unwise to assume that public support for scaling-up its ODA efforts would easily be forthcoming, especially at a time of austerity. According to Iceland's CSO representatives there is still a lot to be done in order to change the public misconception of development co-operation as solely humanitarian aid or charity. Activities in awareness-raising and development education are therefore of crucial importance.

### ***Communication and engagement***

The special review team commends the Ministry for Foreign Affairs and ICEIDA for their efforts on communication, especially the weekly web-based development news magazine. Iceland's approach could be strengthened by targeting communication on certain key stakeholders, including: politicians, key academic institutions, media, business community, students and the general public. In particular, gathering and communicating results and stories that interest and engage these target audiences could be a more effective use of limited resources for communication. Iceland has an opportunity to learn from the lessons of others about how to link the process of managing for results with communicating about results – managing for results is discussed in more detail in the final chapter of this report.

Most DAC members have chosen to support and finance development communication and education activities of civil society, recognizing that it is better to let citizens inform citizens as the state has strong self interests. Iceland might benefit from considering the communication strategies of certain DAC members, such as Ireland – this country has managed to achieve high levels of public support for its development assistance. The Netherlands, too, is effectively communicating the results of its development co-operation and may also be worthy of Iceland's attention in this regard.

### ***Global education***

Iceland has completed some initial work on the development of a global education curriculum for the country's schools, in association with NGOs and the Ministry of Education. Portugal has recently developed a global education curriculum and successfully introduced this to its schools and this DAC member's experience may be relevant to Iceland. Portugal developed its global education programme with the assistance of three other DAC members with good practices in global education, Austria, Finland and Ireland; the Global Education Network Europe (GENE) also played a useful supporting role.

### ***Iceland should improve consultation on its development co-operation***

The Ministry for Foreign Affairs is consulting on its policies and strategies in an ad hoc way. There is room to improve this, in particular by adopting a more systematic approach, with regular consultations and joint (with stakeholders) agenda setting. The Ministry for Foreign Affairs should also have an established

## SPECIAL REVIEW OF ICELAND

process for vetting new policies with stakeholders (see Chapter 3) and giving feedback on consultation to those that have contributed ideas and suggestions. This would make the consultation process more meaningful.

### *Strengthening accountability*

Iceland has taken steps to improve the accountability arrangements for its development co-operation. These steps include making information on Iceland's allocations of its ODA available on the Ministry for Foreign Affairs' web-site and, in 2011, the publication of a comprehensive overview of Iceland's ODA for the years 2009 and 2010. In addition, the Minister of Foreign Affairs includes a chapter on Iceland's development co-operation in his annual report to the Althingi on the country's foreign policy. The Ministry for Foreign Affairs also provides regular reports to the Foreign Affairs Committee and the Budget Committee of the Althingi. Nevertheless, according to members of the Althingi they would prefer to receive reports from the Ministry for Foreign Affairs and ICEIDA that are shorter on detail and more focused on the results of Iceland's aid and the challenges faced.

### **Recommendations**

In the context of its revised aid strategy, Iceland should, as a matter of on-going efforts to strengthen its development co-operation, elaborate on a number of areas, including:

- its comparative advantage and the direction in which it wants to move as a donor;
- synergies between its multilateral and bilateral engagements;
- how it is going to allocate and deliver the planned additional aid resources post 2014 – multilateral, bilateral and humanitarian; and
- how it is going to strengthen the basis for performance monitoring and evaluation and reporting on development results.

The Ministry for Foreign Affairs and ICEIDA should strengthen their communication efforts in light of the planned scale-up of ODA. They could do this by working with NGOs and also by providing the Icelandic public and parliament targeted information on development results to enable an informed discussion. In addition, development education could be supported.

To improve its relations with CSOs and other stakeholders, the Ministry for Foreign Affairs should improve its dialogue and consultation practices. In particular, the Ministry should ensure a more systematic approach to consultation, use of open forums and a more in-depth engagement with key stakeholders such as NGOs and academics.

**NOTES**

1. A country strategy plan (CSP) is in place for Malawi following consultation with local partners. Iceland reports that draft CSPs for Afghanistan, Mozambique, the West Bank and Gaza Strip and Uganda are being consulted on and will be finalised in 2013.

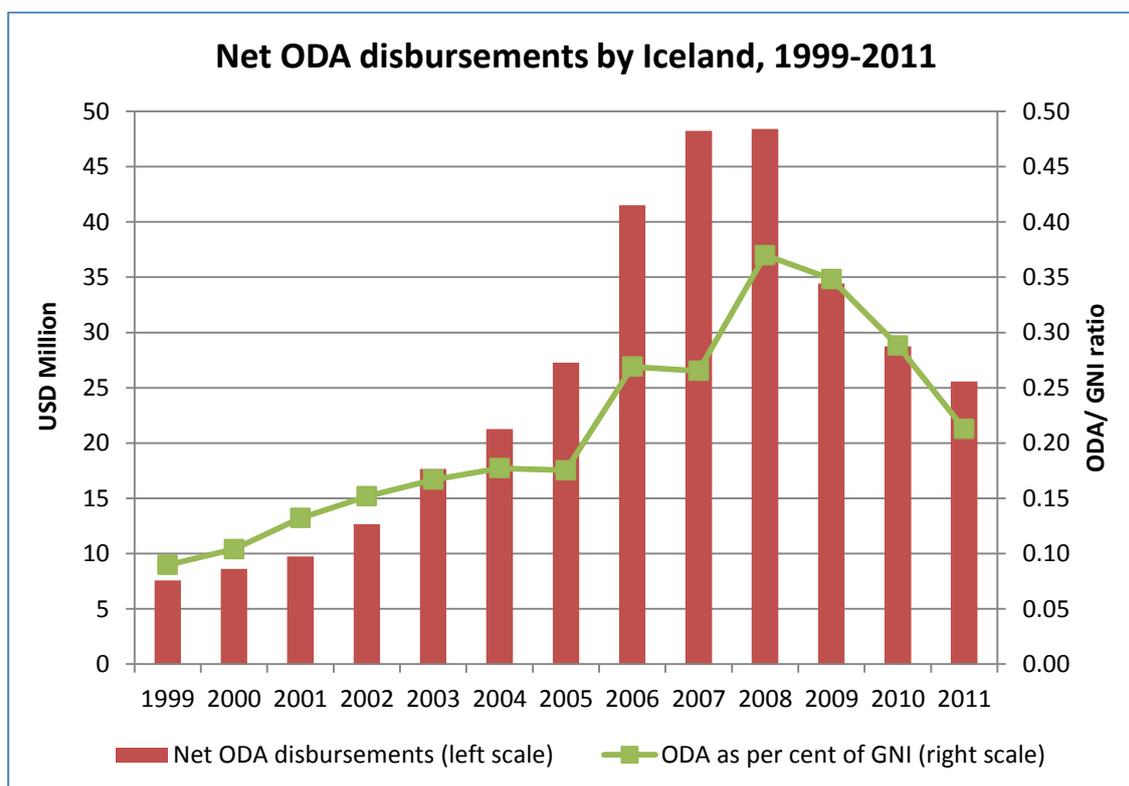


## CHAPTER 2: ODA VOLUME, CHANNELS AND ALLOCATIONS

### Iceland is committed to achieving its 0.7% ODA/GNI target by 2019

Iceland has a long standing commitment to reach the UN's target of providing 0.7% of its gross national income (GNI) as ODA. Iceland had begun to make real progress towards meeting this target, with its ODA/GNI ratios increasing from less than 0.1% to 0.37% between 2000 and 2008 (Figure 1). However, the banking and financial crisis that started in 2008 plunged Iceland's economy into recession, causing its currency to collapse and the government to implement swingeing cuts to public expenditure, including to the ODA budget. As a result, Iceland's ODA volume almost halved between 2008 and 2011. In 2011, Iceland's ODA stood at USD 26 million, equivalent to 0.21% of its national income; a commendable level of effort given its challenging economic context.

Figure 1. Iceland's Net ODA Disbursements, 1999-2011 and ODA/GNI percentages



Source: OECD statistics

What does the future hold? There is a high degree of consensus amongst Iceland's political parties with respect to the country's commitment to meet the UN target of 0.7% of ODA/GNI. The Althingi agreed in 2011 to a new timetable for achieving this aim (Table 2.1), which includes an ambitious target to increase Iceland's ODA volume by 37% between 2012 and 2013, with an interim milestone of 0.5% ODA/GNI by 2017 and the intention of achieving 0.7% ODA/GNI by 2019.

## SPECIAL REVIEW OF ICELAND

While there is political consensus for scaling up Iceland's aid in the coming years, the economic context remains challenging. Iceland's economy has begun to recover, with real GDP growth standing at 2.6 % in 2011. Iceland's central government budget deficit in 2011 was -3.5%, and this is expected to rise to -0.2% in 2013.<sup>1</sup> The Icelandic government plans to continue to cut public expenditure over the next four years in order to bring down its debt levels.

**Table 1. Iceland's Parliamentary Approved Timetable for Increasing ODA 2012 - 2019**

YEAR	2012	2013	2014	2017	2019
ODA/GNI RATIO	0.21%	0.25%	0.28%	0.5%	0.7%

Source: Government of Iceland, 2012

### *Iceland will need to make choices about allocating additional ODA post-2014*

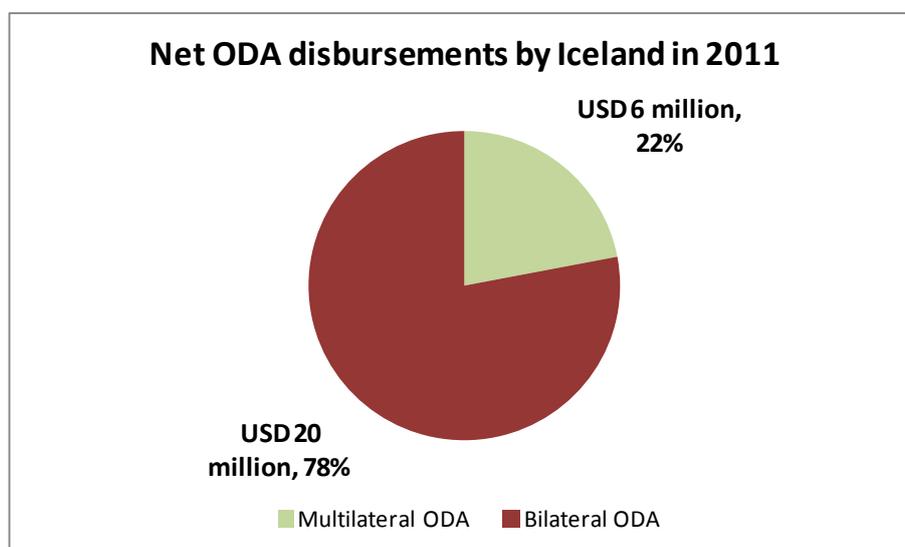
The Ministry for Foreign Affairs and ICEIDA have agreed on a division of Iceland's ODA at a ratio of 60 (Ministry): 40 (ICEIDA) for 2012 – 2014; in 2011 the division was 61 (Ministry): 39 (ICEIDA). This ratio is in accordance with Iceland's strategy of allocating 60% of ODA to and through multilateral channels (core and non-core) to fund development, peace-building and humanitarian work (all of it managed by the Ministry), and 40% for the bilateral programmes managed by ICEIDA, mainly in Iceland's three partner countries. The two institutions have each developed plans for the anticipated scale up of Iceland's ODA up to 2014 with this ratio in mind (ICEIDA, 2012).

The increases in Iceland's ODA envisaged for 2013 and 2014 in many ways reflect a return to the ODA levels of 2008 and therefore do not pose that much of a strategic or managerial challenge. However, beyond 2014, the Ministry and ICEIDA will need to make choices about where to allocate additional funding, including in the context of possible EU membership. The planning for these allocations should start now and decisions ought to be driven by a clear vision of the future direction of Iceland's development co-operation. Depending on the strategic choices Iceland makes, this may mean, for example, that it either concentrates its resources on fewer thematic priorities, moving away from a country focus, or that it concentrates its resources on a smaller number of partner countries, enabling it to be a more significant donor in, say, one or two of these. As part of these deliberations, Iceland also needs to think in particular about how it divides its aid between the multilateral and bilateral channels in light of its size, comparative advantage and potential EU membership.

### **Bilateral and multilateral channels and allocations**

Iceland divides its aid, all of which is in the form of grants, between the bilateral and multilateral channels. In 2011, Iceland's net bilateral ODA was 78% of its total aid, equivalent to USD 20 million (Figure 2). Iceland's net multilateral ODA (core-funding of multilateral organisations) accounted for 22% of its total aid, USD 6 million. The DAC does not have an evidence-based view on the optimal proportion of bilateral and multilateral ODA for a donor. The proportion of Iceland's ODA that is multilateral is below the DAC average of 28% for 2011.

Figure 2. A Breakdown of Iceland's Bilateral and Multilateral Net ODA Disbursements 2011



Source: OECD statistics

Like many other donors, Iceland channels a proportion of its bilateral aid through multilateral organisations in the form of earmarked contributions, often referred to as “multi-bi.” In 2011 Iceland spent USD 6.97 million (34% of its bilateral aid) in this way, funding specific earmarked projects with selected multilateral organisations. This amount was more than Iceland channelled as core funding to multilateral organisations, an issue that is discussed further in 2.2.5. If Iceland’s core and ear-marked contributions to multilateral organisations are taken together they account for almost half of Iceland’s ODA; this is slightly higher than the DAC average, which amounted to 40% of total ODA in 2011 (2012d). As noted above, the Ministry for Foreign Affairs is responsible for Iceland’s multilateral ODA, multi-bi, humanitarian assistance and certain NGO funding and this amounted to 61% of Iceland’s total ODA in 2011.

***Iceland’s bilateral ODA should be concentrated on fewer countries***

It is recognised good practice for DAC members to concentrate their bilateral ODA on an optimum number of partner countries relative to their aid volume, so their bilateral programmes are significant in size to their partner countries. Iceland follows this good practice up to a point, but its aid is spread across a number of countries relative to its size (Table 2) and in no countries is it considered a significant donor; i.e., among the top ten donors.

## SPECIAL REVIEW OF ICELAND

**Table 2. Top recipients of Icelandic gross bilateral ODA: four year averages 2001-2011 - USD million (amounts in USD constant 2010 prices)**

2000-04 average		2005-09 average		2010-11 average	
Malawi	1.9	Malawi	3.2	Uganda	3.1
Mozambique	1.3	Afghanistan	2.5	Malawi	2.4
Namibia	1.2	Uganda	2.2	Mozambique	2.1
Uganda	0.6	Mozambique	2.1	Afghanistan	1.2
Iraq	0.5	Namibia	1.7	Namibia	1.3
Bosnia-Herzegovina	0.08	Sri Lanka	1.6	West Bank & Gaza Strip	0.8
Timor-Leste	0.02	Nicaragua	1.1	Nicaragua	0.7
		West Bank & Gaza Strip	0.5	Haiti	0.4
		Guinea-Bissau	0.3	Guinea-Bissau	0.3
		Sudan	0.2	Bosnia-Herzegovina	0.3
<b>Share of Gross Bilateral</b>	<b>62%</b>	<b>Share of Gross Bilateral</b>	<b>64%</b>	<b>Share of Gross Bilateral</b>	<b>63%</b>

Source: OECD statistics.

If Iceland wants to become a more significant donor in its priority partner countries, it will need to combine the planned scale up of its aid with a narrower focus of its bilateral assistance and to increase the proportion of this going to its top three recipients. On average, 63% of Iceland's bilateral ODA went to its top ten recipients between 2010 and 2011. Iceland's priority partner countries – Uganda, Malawi and Mozambique – were the top three recipients during this period, accounting for 38% of Iceland's bilateral aid.

### *More than half of Iceland's bilateral ODA goes to least developed countries (LDCs)*

There is general agreement amongst the international community that countries identified as least developed, should receive special attention in terms of ODA flows due to their high levels of poverty and their structural impediments to growth. It is commendable, therefore, that on average between 2010 and 2011, Iceland provided more than half of its net bilateral ODA to Least Developed Countries (LDCs). This is just above the DAC donor average which in 2009 – 2010 stood at 47 %. This positive trend should continue given that Iceland's three priority partner countries are all LDCs.

### *The need for further thematic focus*

In 2011, Iceland allocated its ODA broadly in accordance with its stated thematic priorities with 39% of its bilateral ODA going to production and economic infrastructure – namely the fisheries and geothermal energy sectors; a further 25% on other social infrastructure and services, including governance and security; and 15% to health, education and population infrastructure and services. As discussed in Chapter 1, given Iceland's size there is clearly scope for a reduction in the number of sectors it supports and it should concentrate its ODA on thematic areas where it has a comparative advantage.

### *Iceland's bilateral aid modalities and aid effectiveness*

Iceland's bilateral aid is delivered mainly in three ways:

- through multi-bi (non-core) contributions to multilateral organisations;
- as projects in its partner countries carried out or supervised by ICEIDA; and
- as projects delivered by NGOs in response to calls for proposals.

With regard to the first of these, as noted above, in 2011 the Ministry for Foreign Affairs channelled one third of Iceland's bilateral funding (USD 6.97 million) through multilateral organisations for specific earmarked projects or for seconded personnel. The majority of its multi-bi funding is allocated to Iceland's priority multilateral organisations in accordance with its strategy. The largest single recipient of Iceland's aid in 2011 was the United Nations University (UNU) programme which received USD 3.73 million and this is discussed in more detail below. This is followed by the United Nations Entity for Gender Equality and the Empowerment of Women, also known as UN Women, which received USD 554 000 in non-core support; UNICEF which received USD 544 000; and, the World Bank which received USD 543 800 in 2011.

#### *The United Nations University (UNU) – Iceland's largest investment*

The UNU represents Iceland's largest single aid investment in 2011, accounting for 15% of Iceland's total ODA. Nearly all of this money is spent in Iceland. The UNU has its headquarters in Tokyo, Japan, and has institutes and programmes in thirteen countries around the world, which aim to provide training on sustainable development and human rights and peace issues. Iceland's funding is entirely focused on three UNU training programmes hosted in Iceland, which provide training in the fields of geothermal energy, sustainable fisheries and land restoration. These programmes receive the majority of their funding from Iceland's ODA.

Since 1979 some 730 developing country professionals have attended UNU training programmes in Iceland on international scholarships funded by Iceland's ODA. The unit cost in 2011 for a student to undertake one of the 3 six month programmes in fisheries, geothermal energy or land restoration is USD 40, 000. This is a sizeable investment in human capacity development, especially relative to other elements of Iceland's development co-operation. While internal evaluations of the UNU programmes in fisheries and geothermal energy reveal positive impacts on students (UNU 2011), there have been no external evaluations of the overall impact of the programmes on fisheries, geothermal energy development or land restoration in the countries that have benefited from the training. In addition, there are no mechanisms in place to independently assure the quality of the programmes or to validate these against similar programmes being run by other institutions.

Iceland's approach to international scholarships should be seen in the light of DAC members' experiences which have recently been brought together in an OECD publication on capacity development (OECD, 2012c). In recent years several DAC members have reviewed their international scholarship programmes to understand the impact they have on development outcomes and have found them not to be cost-effective relative to other forms of capacity building. In recognition of this, some DAC members have significantly downsized or abolished their scholarships, focusing instead on in-country training and strengthening the capacity of training institutions in partner countries. Indeed, the new UNU delivery model established by the institution's headquarters in Tokyo currently promotes a switch to providing training in partner countries, as opposed to international scholarships, and supporting capacity-building of developing countries' universities and research institutes through twinning arrangements. Iceland's UNU fisheries and geothermal programmes have begun to provide in-country training in recent years, in addition to the training provided in Iceland, but there are no plans yet to adapt fully to the new UNU model.

#### *ICEIDA programmes – a drive to improve aid effectiveness*

Iceland's bilateral aid agency – ICEIDA – concentrates its assistance on three partner countries and focuses mainly on district level projects and programmes in education, health and governance. ICEIDA has traditionally focused on delivering 'stand alone' projects. In 2011, ICEIDA, under its own initiative, carried out a systematic assessment of its progress in meeting the Paris Declaration aid effectiveness targets (Box 1) and as a result the Agency has set its own timetable for achieving some of these. ICEIDA

## SPECIAL REVIEW OF ICELAND

reports that all of its programmes are untied. In addition, ICEIDA has set a target for 70% of its allocations to go through the public financial management systems of Iceland's partner countries by 2014. However, this will be a challenge as in 2009, according to Icelandic government data, only 2% of its bilateral aid made use of partner countries' public financial management systems (ICEIDA, 2012).

As part of its effort towards greater aid effectiveness, ICEIDA is in the process of devolving greater responsibility for aid management to its field offices in partner countries and is moving towards a more programme based approach, where appropriate, for its aid delivery at country level. Iceland's recent country strategy paper for Malawi (2012- 2016) (ICEIDA, 2012a), for example, promotes a programme-based approach for its district level support.

Iceland has also made progress on harmonising with other donors in its partner countries, another key aspect of the international aid effectiveness agenda. Iceland is working with the Norwegian government on a joint fisheries sector programme in Mozambique and, more recently has started a joint project with Norway and Denmark in Uganda on promoting gender responsive climate change mitigation and adaptation. ICEIDA is in the process of formulating guidelines and new instruments for programme based approaches, sector budget support and co-financing arrangements in recognition of the need to support fewer, larger and more harmonised programmes in the future. This work is welcome.

### Box 1. Taking the initiative on aid effectiveness

Iceland has engaged in the international aid effectiveness forums over the last six years, and has endorsed the Paris Aid Effectiveness Declaration; the Accra Agenda for Action (OECD, 2008) and the Busan outcome document (Fourth High Level Forum, 2011). However, as a non-DAC member, Iceland was not part of the OECD's monitoring process for the Paris Aid Effectiveness targets and therefore had not been assessed against the targets. In 2011, Iceland's bilateral aid agency – ICEIDA - under its own initiative, carried out a systematic assessment of its progress in meeting the Paris Aid Effectiveness Declaration targets. This followed changes in ICEIDA's legal statutes in 2008, which have enabled ICEIDA to be more able to legally deliver aid in the ways outlined by the Paris Declaration. As a result of its own assessment, ICEIDA has established an ambitious and clear timetable for meeting some of these by 2014. For example, it has set itself the target of ensuring that 70% of its ODA uses partner countries public financial management systems in 2014. In 2009, only 2% went through country systems.

#### ICEIDA's Aid Effectiveness Targets

Indicators	Baseline in 2009	Targets in 2014
% of ICEIDA's ODA on national budget of partner country	21%	85%
% of ICEIDA's ODA that is technical assistance which is aligned to partner countries strategies	N/A	70%
% of ICEIDA's ODA using partner country's public financial management systems	2%	70%
% of ICEIDA's procurement using the national procurement systems of the partner countries	32%	70%
Number of parallel Project Implementation Units (PIU)	54	0

Source : ICEIDA, 2012

*Iceland is strengthening its partnership with civil society organisations (CSOs)*

With regard to the third way in which Iceland delivers its bilateral aid, it is strengthening its partnerships with CSOs and increasing the volume of its assistance that is channelled to and through them.

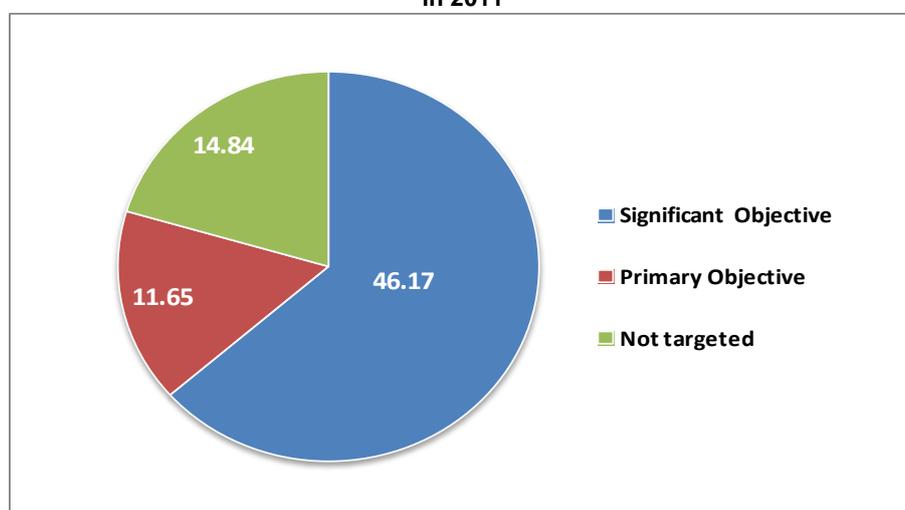
These additional resources will need to be accompanied by stronger arrangements and procedures to govern this partnership. In 2011, a little over 4% (USD 1 196 000) of Iceland's total ODA was channelled to and through CSOs, with almost all of this (USD 1 046 000) going to Icelandic organisations. The creation of a separate line in the state budget specifically for CSOs noted in Chapter 1 may restrict the ability of the Ministry and Agency to fund these organisations in a flexible manner and in response to changing development needs, this measure should be reviewed in due course.

Iceland has put in place new procedures for CSOs applying for funds and there is now a single application process for accessing development and humanitarian assistance across the Ministry for Foreign Affairs and ICEIDA (ICEIDA, 2011a). This is a step in the right direction, but the procedures could be strengthened further to enable more NGOs to receive multi-annual funding – at present very few NGOs receive this kind of funding. Such an arrangement would reduce the transaction costs for both the NGOs and the Ministry and ICEIDA. The requirement for development NGOs to provide 30% of the total project costs as co-finance is close to the EU's requirement of 25%.

#### *Cross-cutting issues: gender and the environment*

Iceland has identified gender equality and the environment as two cross-cutting issues for its development co-operation. In 2011, most of Iceland's bilateral aid has been analysed using the OECD/DAC's Gender Equality Policy maker.<sup>2</sup> The special review team commends Iceland for this initiative and calls upon it to work towards ensuring that all of its gross bilateral ODA is analysed using these markers in the future. The analysis shows that of the gross bilateral ODA that has been analysed 80% had gender equality as a primary or significant objective (Figure 3). With the selection of UN Women as one of its four priority institutions and its focus on gender equality in its work with the World Bank, Iceland is also striving to ensure gender equality is a priority in its multilateral support.

**Figure 3. Total amount of gross bilateral ODA, analysed with the OECD/DAC's Gender Equality Policy Marker in 2011**



Source: OECD statistics (2012)

Iceland has not yet analysed its aid against the Rio markers that measure donors' commitments against the United Nations Framework Convention on Climate Change (UNFCCC), the United Nations Convention on Biological Diversity (UNCBD) and the United Nations Convention to Combat Desertification (UNCCD), collectively known as the Rio Conventions. In 2010, DAC members also started

## SPECIAL REVIEW OF ICELAND

to report on ODA commitments for climate change adaptation. Iceland should consider reporting against these four environmental and climate change markers in the future.

### *Multilateral ODA*

In accordance with its strategy, in 2011 Iceland allocated more than half of its multilateral ODA (core-funding) to its three priority organisations: the World Bank, UN Women and UNICEF. The World Bank was the largest recipient of Iceland's multilateral ODA with USD 2.01 million. UNICEF was the second largest with USD 662 000, while the third largest recipient was UN Women with USD 504 000. The rest of Iceland's multilateral ODA, approximately USD 3 million, was allocated to 12 other UN agencies and the Nordic Development Fund.

Iceland's non-core funding (multi-bi) through multilateral organisations, discussed earlier, is greater than its core funding. This is not problematic in itself, and Iceland's strategy of using multilateral organisations as implementing partners for its bilateral aid is sensible. However, in line with emerging principles for good multilateral donorship (OECD, 2012d), Iceland should be careful to ensure it is providing an appropriate level of core funding for multilateral organisations and that its ear-marked funding does not impose an additional reporting burden on multilateral organisations. The balance between Iceland's core and non-core allocations should be monitored to ensure that those multilateral organisations that it is supporting are receiving adequate overall levels of core-funding from the wider donor community. In the case of its priority multilateral organisations, the UNU receives no core-funding from Iceland, while UN Women and UNICEF receive more or less the same amounts in core and non-core-funding.

### **Statistics and reporting**

As a non-DAC OECD member, Iceland is asked to report on a voluntary basis only its ODA disbursements broken down by recipient, on an abridged reporting form (compared to DAC members) that OECD provides each year. Aggregate data on bilateral and multilateral ODA are derived from this table. In addition, Iceland provides its annual GNI figure, so an ODA/GNI ratio can be compiled. It has provided these data to the OECD almost every year since 1990 (except for 1995 and 1996).

In 2012, for the first time, Iceland provided OECD with activity level reporting in the Creditor Reporting System (CRS) format on its bilateral and multilateral ODA programme in 2011. This has greatly improved data quality and increased the possibilities for data analysis by type of aid, channel of delivery, purpose codes and geographical coverage. However, information on policy markers has not yet been systematically included by Iceland. In order to sustainably report in the CRS format, as per the requirements of a DAC member, Iceland needs to establish a more systematic process for collecting these data in the future.

### **Recommendations**

Parliament's ambitious commitment to reaching an ODA/GNI ratio of 0.7% by 2019 with a clear timetable for achieving this is commendable. In the context of a challenging economic environment, Iceland should do its utmost to adhere to this timetable.

Iceland's aid allocations are becoming better focused. In the future there is a need to concentrate its growing resources on fewer geographic and thematic priorities.

The Ministry for Foreign Affairs and ICEIDA have developed plans for scaling up Iceland's ODA in 2013 and 2014. They should start thinking now about how to allocate additional funding beyond 2014 and the choices that will need to be made, including in the context of possible EU membership.

ICEIDA should stick to its timetable for meeting its aid effectiveness targets by 2014 and further pursue efforts on use of programme based approaches and country systems.

The Ministry for Foreign Affairs is strengthening its partnerships with civil society organisations to increase the volume of aid channelled to and through them. These additional resources should be accompanied by stronger partnership arrangements and funding mechanisms that match the policy objectives and priorities of Iceland's strategy.

In 2012 Iceland reported its aid statistics to the DAC using DAC's Creditor Reporting System (CRS). Whilst there are still some gaps in the data, this achievement should not be under-estimated for a non-DAC donor. Iceland should establish a systematic process for collecting these data.

## SPECIAL REVIEW OF ICELAND

### NOTES

1. These figures were provided by Iceland's Ministry of Finance.
2. The only aspects of Iceland's bilateral aid that were not screened against the Gender Marker were its administrative costs, its debt relief and its contributions to the United Nation's University.

### CHAPTER 3: ORGANISATION AND MANAGEMENT OF ICELAND'S DEVELOPMENT CO-OPERATION

#### **Iceland's institutional framework for its aid**

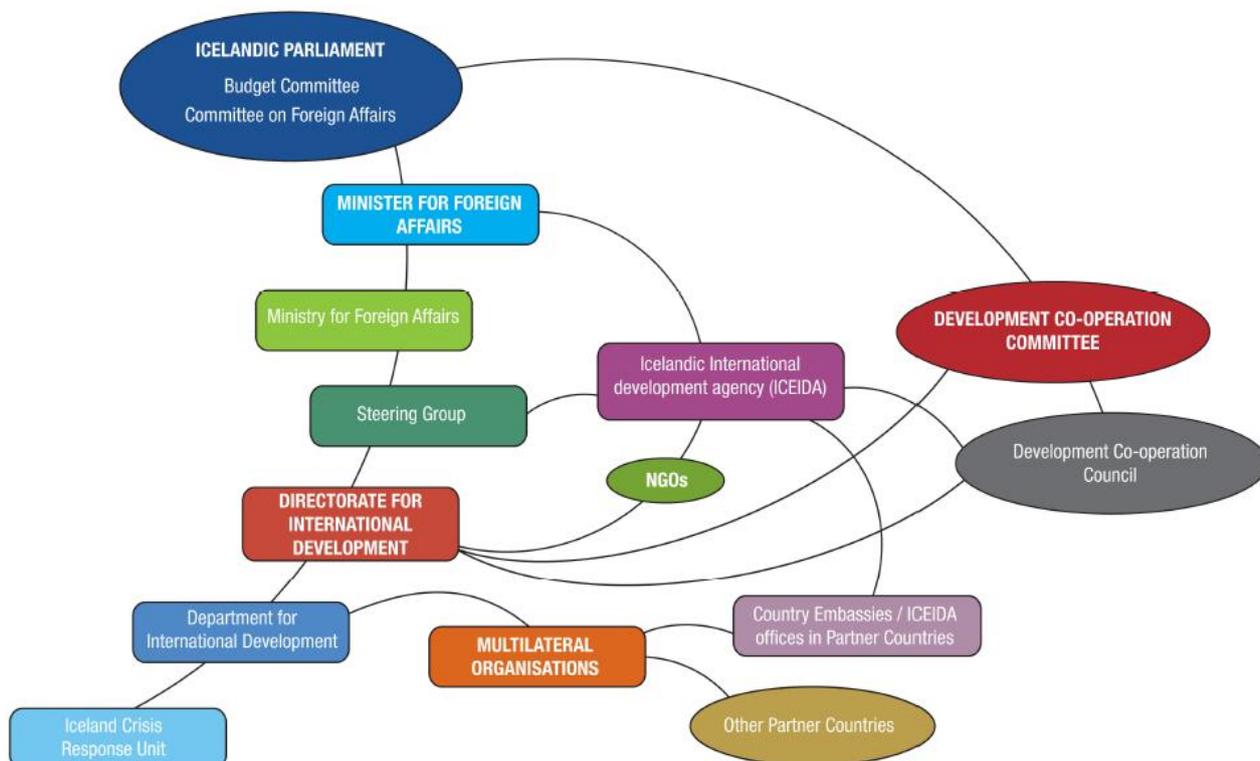
Iceland has an institutional framework with sufficient operational capacity for delivering its development co-operation, but there is scope for strengthening this. Iceland has a well established system that concentrates its ODA in just two institutions: the Ministry for Foreign Affairs and ICEIDA (Figure 4). The supreme authority for Iceland's development co-operation is vested with the Minister of Foreign Affairs and this provides clarity in respect of ultimate responsibility and accountability for its ODA. Within the Ministry for Foreign Affairs, the Directorate of International Development Co-operation is responsible for policy formulation and co-ordination of all of Iceland's ODA – bilateral, multilateral and humanitarian and emergency funding. The Directorate is divided into two departments, namely the Department of Development Co-operation and the Icelandic Crisis Response Unit (ICRU). ICEIDA is responsible to the Ministry for bilateral aid programmes in Malawi, Mozambique and Uganda, as well as the first phase of a new regional geothermal project, in co-operation with the World Bank. Funding to NGOs is a common responsibility of ICEIDA and the Directorate of International Development Co-operation. A separate budget item within the State budget is in place for the funding.

In the past ICEIDA had its own legal framework and separate board of directors, and worked more independently from the Ministry for Foreign Affairs. Iceland's 2008 Development Act removed ICEIDA's board of directors and placed it more directly under the auspices of the Ministry. ICEIDA and the Ministry for Foreign Affairs now work more closely together and will soon be situated in the same building in Reykjavik. These steps are commendable and should lead to even better co-ordination between the Ministry and ICEIDA.

In order to strengthen the co-ordination of Iceland's ODA and, in particular, improve the synergy between the two main institutions, a Steering Group was established in 2009 within the Ministry for Foreign Affairs (Ministry for Foreign Affairs 2008a). The Steering Group meets regularly to exchange information, to discuss procedural and administrative matters and to review strategic issues and reports of evaluations. The Steering Group has the potential to play a stronger role in bringing the Ministry and ICEIDA together and could provide the necessary oversight *of* and direction *for* all of Iceland's development activities. The Group is headed by the Permanent Secretary of State for Foreign Affairs and brings together the Directors General of the Directorate of International Development Co-operation and ICEIDA together with the Director of the Department of Development Co-operation and the Head of the ICRU.

Iceland's structure for its aid was enhanced in 2008 with the creation of two new bodies designed to enable greater stakeholder consultation and advisory inputs for its development co-operation. The Development Co-operation Committee has seven representatives from the parliamentary parties and is meant to participate in policy debates with the Ministry for Foreign Affairs in order to help shape Iceland's long-term decision-making on development. The second body, the Council on International Development, comprises the seven Development Co-operation Committee members together with an additional nine members appointed from NGOs, academic representatives and social partners by the Minister of Foreign Affairs. The Council is designed to have an advisory function.

Figure 4. Iceland's development co-operation system



Source: OECD based on Ministry for Foreign Affairs, 2012

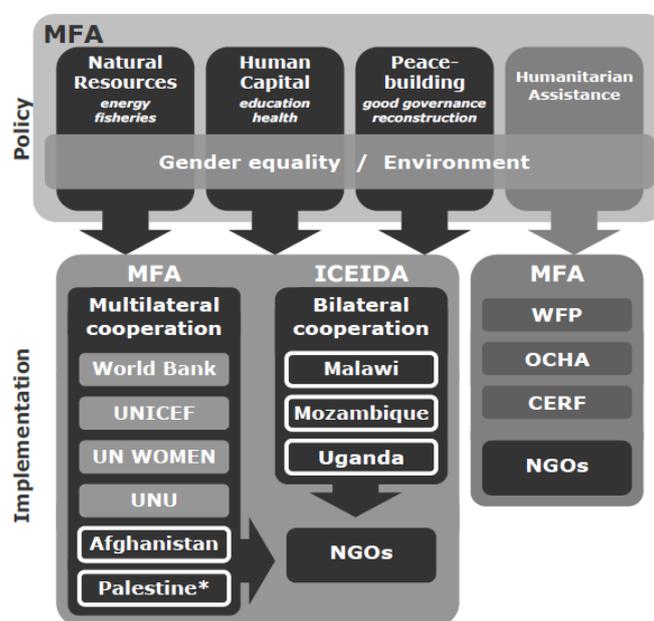
### ***Strengthening the management of Iceland's aid***

As part of its on-going efforts to improve its development co-operation, Iceland should revisit its institutional framework to confirm that this remains fit for purpose. There is a clear division of labour between the Ministry for Foreign Affairs and ICEIDA and good progress has been made in enabling the two organisations to work closer together (Figure 5). The employees of both the Ministry and ICEIDA are dedicated and professional and there is good co-operation between them. Nonetheless, Iceland should consider the costs and benefits of its current aid management structures relative to its development aims, its size as a donor, its operations and the experience and practice of DAC members.

In the light of DAC members' experience and common aid management models, Iceland should consider whether its current institutional arrangements are still appropriate, particularly in the context of its vision and strategy for development co-operation post-2014. As part of this Iceland should consider the three most common models for aid management among DAC members and which of these might be the most appropriate for its mission. DAC peer reviews have shown that organisational structures for managing aid in each member country are unique and dynamic, but most of these either integrate their aid management within the Ministry of Foreign Affairs (such as Denmark and Norway); integrate aid management within the portfolio of the Minister of Foreign Affairs but have a clear separation of development co-operation within their structure (such as New Zealand and Ireland); or have the Ministry of Foreign Affairs responsible for development policy with implementation resting with an agency (such as Austria and Belgium). Iceland's management arrangements do not fall exactly into any of these models as

it has both policy and implementation within the Ministry for Foreign Affairs while also having an implementing agency.

**Figure 5. Division of labour between the Ministry for Foreign Affairs and ICEIDA**



Source: Ministry for Foreign Affairs (2012)

### *Iceland's accountability arrangements may need some attention*

As part of a review of its management arrangements, Iceland should consider a particular implication of the 2008 change in Iceland's structure in respect of agency accountability. The removal of ICEIDA's separate board of directors in 2008 has meant that the Agency is now able to effectively sign off its own programmes and contracts without reference to a higher authority. For example, Iceland's National Audit Office (INAO) has highlighted that there are no formal procedures for enabling the Ministry for Foreign Affairs to follow up on how ICEIDA is monitoring its contracts: it is entirely up to the discretion of the Agency's management team whether to inform the Ministry of their activities. The INAO considers it important for the Ministry to have clear and effective procedures for monitoring the implementation of all contracts and notes that the Steering Group's role within this could be strengthened. The Ministry for Foreign Affairs is considering the possibility of all evaluations of ICEIDA projects being submitted to the Steering Group, for discussion. In addition, quarterly progress reports from partner countries may be submitted for monitoring purposes. This should happen, along with regular monitoring of key ICEIDA contracts.

### *Improving stakeholder engagement structures and the quality of dialogue*

The Development Co-operation Council and the Development Co-operation Committee could be strengthened to enable greater space for debate and dialogue with the Ministry for Foreign Affairs and ICEIDA. The engagement between the Committee and the Ministry for Foreign Affairs and ICEIDA has been limited to date and there is a need for greater clarity over the Committee's exact role in order to ensure it fulfills its potential. Action has been taken recently to address this problem. The 2008 Act, which provides the legal basis for the Committee, was amended in December 2012 to provide greater clarity on the role of the Committee (Government of Iceland, 2011a). In addition, the organisational structure of the Committee was strengthened through, amongst other things, the establishment of an elected chair and

## SPECIAL REVIEW OF ICELAND

vice-chair for the Committee and the provision of a resource person to assist with the Committee's work. These are positive steps and will hopefully help to strengthen the dialogue and engagement of the Committee in the future.

The Council, on the other hand, has met a number of times, and has discussed Iceland's Development Strategy 2011 – 2014 (Ministry for Foreign Affairs, 2011), ICEIDA's Malawi Country Strategy Paper 2012- 2016 (ICEIDA, 2012a) and ICEIDA's Vision and Procedures 2012-2014 (ICEIDA, 2012). The Council has also been instrumental in calling for Iceland's strategy to include a stronger focus on NGOS. Nevertheless, the Council could be used more by the Ministry for Foreign Affairs as a forum for debate and reflection and given greater time and space for substantive dialogue.

### *Decentralised bilateral co-operation in Iceland's partner countries*

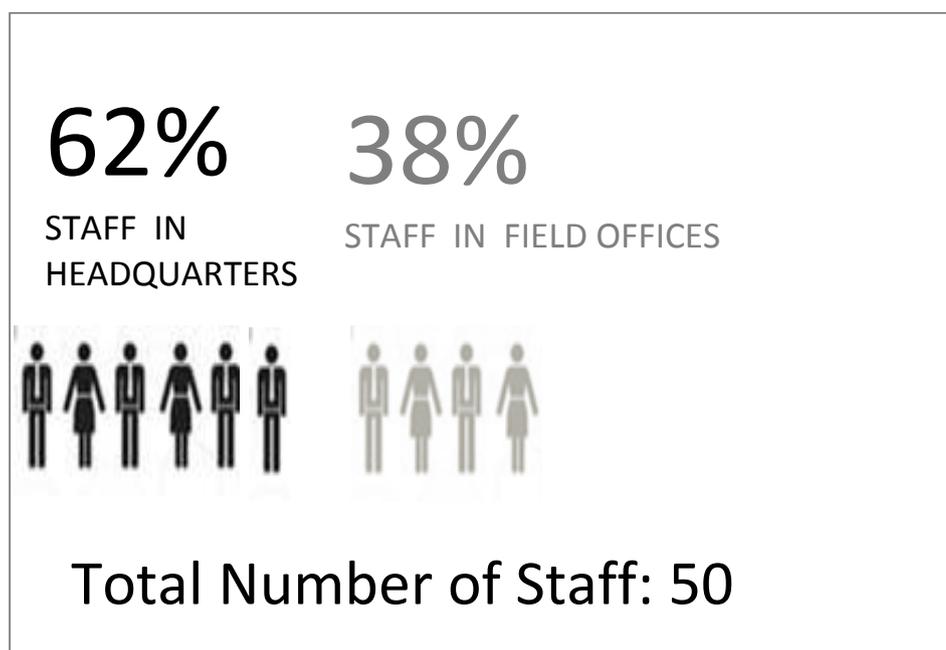
Devolution of authority from ICEIDA headquarters to its field offices has been effective in providing Iceland with the resources and flexibility to respond to evolving partner country needs. There are ICEIDA country offices in all three of Iceland's partner countries headed up by ICEIDA's country directors who also function as Iceland's *chargé d'affaires* to the countries, in the absence of an Ambassador. These country offices are responsible for all support provided by ICEIDA in the country and. Country directors agree with ICEIDA headquarters an annual budget and are allowed some flexibility to re-allocate funds, as need arises within the agreed ceilings, but major re-allocations are subject to headquarters' approvals.

### **Human resources**

Iceland is aware that it needs to work within limited resources while increasing attention to policy and strategic planning; programme cycle management in the context of programme based approaches; and in particular, monitoring and evaluation. In the short to medium term there may be a need for reviewing and up-dating the skills available to the Ministry for Foreign Affairs and ICEIDA in the light of the changing development context and Iceland's priorities.

The Icelandic government employed 50 people on its development co-operation in 2012. Nineteen of these were based in Iceland; 9 are staff of the Ministry for Foreign Affairs and 10 are the staff of ICEIDA. ICEIDA employed a further 31 people in the field; 5 of these were Icelandic appointed staff and 26 were locally engaged. ICEIDA also uses a number of short-term consultants in the field. While the number of people employed on development in the Ministry for Foreign Affairs has remained constant, fluctuating aid flows and changing priorities have had an impact on staffing levels within ICEIDA. In 2011 the Agency had 42 staff in the field, 11 more than in 2012, and a further 26 short-term consultants (ICEIDA, 2011b).

**Figure 6. Decentralisation: Percentage of Staff Working on Iceland's Development Co-operation in Headquarters and in the Field in 2012**



Source: Ministry for Foreign Affairs (2012)

***Ensuring Iceland has sufficient, appropriate development co-operation staff for scaling up***

While Iceland has a well-established set of people dedicated to development in the Ministry for Foreign Affairs and ICEIDA, these are already under pressure to manage larger amounts of ODA in more complex ways and contexts. Given that Iceland will not be able to increase staff numbers to any great extent and is planning to deliver its programmes through new ways of working, it is clear that increases in the aid programme will have to be accompanied by a careful assessment of the skills, training and resources needed to manage a high quality, growing programme. While this situation does create an obvious tension, Iceland can manage this by: streamlining its procedures; further concentrating its programmes thematically and/or geographically; further consolidating its ODA management, in the way that it has recently done for its CSOs programme; and supporting fewer but larger programmes, particularly through programme based approaches and co-financing arrangements with other donors.

In addition to recruiting the right people for new positions, Iceland also needs to ensure adequate training and professional development of its existing aid management staff. The Ministry for Foreign Affairs and ICEIDA should ensure that all their staff working on development are given the opportunity to up-date their skills on a regular basis. In particular, diplomatic staff of the Ministry for Foreign Affairs that are working on development for the first time in their careers may require on-the-job training or specialist development-based training to support them in their roles. The budget for training for diplomatic staff on development is integrated into the Ministry of Foreign Affairs' annual budget, and is delivered according to principles set out through collective negotiated agreements with staff unions. Training in specialised development issues is available. ICEIDA also has funds available for training and actively encourages its staff to seek training, both in-house and externally. It is encouraging that the Ministry for Foreign Affairs and ICEIDA are in the process of developing a joint human resource strategy to address these issues.

### **Performance monitoring and evaluation**

Iceland needs to strengthen its approach to performance monitoring and evaluation and ensure that these processes feed into its decision-making and result in evidence-based policy and aid allocations. The news that Iceland's revised development strategy will incorporate a commitment to develop a comprehensive plan for enhancing monitoring and evaluation and, also will establish, for the first time, a separate function in ICEIDA for monitoring and evaluation is extremely welcome. As part of this comprehensive plan, Iceland needs to shift to a results-based management and reporting system. Managing for results is defined as managing and implementing aid programmes or projects in a way that focuses on results and uses information to improve decision-making. Iceland has made some progress in this regard. Its development strategy for 2011 – 2014 and new country strategy papers identify objectives and actions for all aspects of its development co-operation (at the thematic, institutional and country levels), and in most cases outcome orientated indicators for measuring progress, though there is scope for improvement around indicators.

The Ministry for Foreign Affairs should ensure appropriate monitoring, reviewing and reporting of results and the use of this to inform decision-making. It should also continue to work with INAO, particularly to follow up the Auditor's regular financial audits of ICEIDA's accounts, but also its performance audit of the Ministry for Foreign Affairs and ICEIDA's contracts. On the basis of these audits, the INAO concluded that the Ministry for Foreign Affairs and ICEIDA should make further efforts to link their payments to contractual goals and performance and to undertake regular audits of their contracts. As noted above, it also highlighted the need for the Steering Group to play more of an oversight role in monitoring all audits.

A key lesson from DAC peer reviews has been the importance of developing a strong culture of managing for results within development agencies and aligning incentives accordingly, but in ways that promote, not weaken, local structures of accountability. In this respect, Iceland should take advantage of the experience of small DAC members, such as New Zealand. This DAC member, the third smallest, is currently establishing the functions of results-based management, evaluation, internal audit and knowledge management within its operations. In terms of reporting results, Iceland could also improve its reporting to the Althingi and other stakeholders on the results and outcomes of its development co-operation, providing concise information that demonstrates the results achieved and challenges faced.

### ***The need to strengthen Iceland's evaluation culture***

By strengthening its evaluation culture, Iceland will be able to build an evidence base to inform future policy choices and allocation decisions, in particular, regarding the main components of its programme, such as UNU and the bilateral country programmes, and emerging priorities, such as funding through CSOs. At present, evaluation has been limited to ICEIDA and its projects and programmes. The reports of these evaluations and reviews are available on ICEIDA's website, but there is limited evidence that the lessons from these are feeding into decision-making, dialogue with the Council on International Development Co-operation, the Development Co-operation Committee or parliamentary debates.

A next step towards developing an evaluation culture would be for the Ministry for Foreign Affairs to set out a prioritised programme for evaluations and to allocate an appropriate budget for this, within the existing framework and tight constraints of Iceland's development co-operation envelope. With regard to a programme for evaluation, this should be driven by Iceland's strategy objectives and its largest allocations, such as the UNU and its long-standing bilateral support to its partner countries - Uganda, Malawi and Mozambique. These four programmes appear ripe for independent evaluation, given that they account for more than half of Iceland's ODA each year. In addition, given that funds for CSOs are set to double in the future, an independent evaluation of these programmes should also be considered.

Iceland could benefit from the experiences of DAC members in establishing evaluation systems. Knowledge and best practices can be found in DAC's Evaluation Network, in which Iceland is already participating. Furthermore, Iceland could look at the practices of The Netherlands, Belgium and Luxembourg. The latter DAC member may provide the most relevant ideas for Iceland as this small donor has established two modest units (three people in Luxembourg's development agency and one in the Ministry for Foreign Affairs) and draws extensively on external resources for independent evaluations, while delegating self-evaluation to operational departments and implementing partners.

#### *Assessing multilateral effectiveness*

Given that half of Iceland's ODA is channelled to and through multilateral organisations as core and non-core contributions, the Ministry for Foreign Affairs and the Althingi are scrutinising its multilateral allocations. Iceland is not in a position to commission its own evaluations of the effectiveness of the multilateral organisations it supports, nor should it. Iceland instead makes use of the regular evaluations undertaken by the multilateral organisations' own evaluation groups and departments and a number of bilateral and joint assessments of multilateral agencies that have been undertaken over the past few years. These include Australia's multilateral assessment (2012), Sweden's Organisational Assessments (2011), the Dutch Scorecards of Multilateral Organisations (2011), the United Kingdom's Multilateral Aid Review (2011) and the annual reports by the multi-stakeholder Multilateral Organisation Performance Assessment Network (MOPAN).

In line with existing aid effectiveness commitments, Iceland should continue to make use of and support joint assessments of multilateral effectiveness and help to ensure that these place stronger emphasis on the evidence provided by developing countries or other "end-users" of the multilateral system. In its 2011 and 2012 multilateral reports (OECD, 2011b and 2012d) the OECD DAC argues that donors should embrace existing joint assessments of multilateral effectiveness where possible rather than promoting new bilateral assessments that cover the same issues addressed in joint assessments. In this way, donors can ensure that organisations are assessed against collective objectives, enabling their recommendations to carry more weight in the broader governance context of the institution under review and inciting greater reform.

#### **Recommendations**

In the short-term, the Ministry for Foreign Affairs and ICEIDA should build on the progress they have made in working closer together and integrating their resources, thereby optimizing their capacities, particularly in key areas such as policy and strategic planning and country programme management. In the medium term, Iceland should review its aid management structure within the context of adjustments in Iceland's development strategy and in light of the need to improve further the accountability, effectiveness and efficiency of its development co-operation.

In the short to medium term the Ministry for Foreign Affairs and ICEIDA should review and up-date the skills available to them in the light of the changing development context and Iceland's priorities.

The new structures introduced with and since the 2008 Act are yet to fulfil their potential. The role of the Steering Group should be assessed in order to strengthen it with respect to guiding policy formulation and providing the leadership for all of Iceland's development co-operation. The Council's consultative function should also be strengthened to enable greater space for debate and dialogue with the Ministry.

Iceland should strengthen its performance monitoring and evaluation culture to build an evidence base to inform future policy choices and allocation decisions, in particular, regarding the main and growing components of its programme, such as UNU, the bilateral country programmes and support channelled to and through civil society organisations.



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## SPECIAL REVIEW OF ICELAND

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